

Service Date: May 15, 1985

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

IN THE MATTER Of The Application)
Of The City of Wolf Point to)
Increase Rates and Charges For)
Sewer Service.)
_____)

DOCKET NO. 84.6.33

ORDER NO. 5138

APPEARANCES

FOR THE APPLICANT:

Jerry Schuster
City Attorney
City of Wolf Point
Wolf Point, MT 59201

FOR THE INTERVENORS:

John Allen
Staff Attorney
Montana Consumer Counsel
34 West 6th Avenue
Helena, MT 59620

FOR THE COMMISSION:

Opal Winebrenner
Staff Attorney
2701 Prospect Avenue
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BEFORE:

Danny Oberg, Commissioner and Hearing Examiner

BACKGROUND

1. On June 13, 1984, the City of Wolf Point (Applicant or City) filed an application with this Commission for authority to increase sewer rates and charges in its Wolf Point, Montana service area. The Applicant requested that the Commission approve rates that would increase annual revenues by approximately \$55,100.

2. A public hearing on this matter was scheduled to commence on January 16, 1985 in Wolf Point, Montana. At the request of the City this hearing date was canceled and the Commission issued a "Notice of Postponement of Hearing", indicating that the matter would be scheduled for hearing at a later date. At the same time the City filed its request for cancellation of this hearing date, it provided a waiver of its rights to implement the increased rates due to the passage of nine months from the date of filing (Section 69-3-302(2), MCA).

3. On March 6, 1985, pursuant to notice of public hearing, a hearing was held in the Production Credit Association, Basement Meeting Room, Wolf Point, Montana. The purpose of the public hearing was to consider the merits of the Applicant's proposed rate adjustment. At the close of the public hearing, the parties stipulated to allow the Commission to issue a final order in this Docket.

FINDINGS OF FACT

4. At the public hearing, the Applicant presented the testimony and exhibits of the following witnesses:

Tim Berry, Consulting Engineer
Charles Worley, Public Works Director

These witnesses testified relative to: the current financial condition of the sewer utility, projected increases in operation and maintenance expense, the need for funding of a capital improvement program, the City's failure to meet certain requirements of its revenue bond indenture, rate structure and revenue projections.

5. The public testimony of the witnesses appearing during the water rate hearing, Docket No. 84.6.32, was adopted into the record of this proceeding: other than that testimony, no public

testimony was presented during the hearing. Examination of the public testimony received during the water hearing reveals concerns were expressed relative to: the City's practice of billing property owners for unpaid bills of tenants prior to institution of service to a new tenant, and the City's rationale for requesting funding of TV inspection of sewer lines.

OPERATION AND MAINTENANCE EXPENSE

6. The test year in this case is the fiscal year ending June 30, 1984, which the Commission finds to be a reasonable period within which to measure the expenses for the purpose of determining a fair and reasonable level of rates.

The Applicant's budgeted operation and maintenance expenses total \$74,946 were not challenged by any party participating in this proceeding and are, therefore, accepted by the Commission.

INSPECTION AND INVENTORY OF MAINS

7. The City has requested that the Commission authorize annual funding at \$16,000 for implementation of a maintenance program to flush and clean mains and television inspection of the mains. The City's witnesses indicated that annual funding at the requested level would allow the City to clean and inspect approximately 1/5 of the system annually.

8. Implementation of the cleaning and television inspection program, in the City's view, would result in improved on-going maintenance and improved preventative maintenance for the sewer utility. The City witnesses indicated that materials accumulate in sewer mains causing restricted flows and a potential for blockages of the main. The proposed cleaning program would remove these materials, resulting in increased flow capabilities and reducing the potential of a blockage. Regarding preventative maintenance, the City indicated that, once mains had been cleaned, they could then be televised and the condition of the main determined and placed on a priority list for replacement.

9. The Commission finds that implementation of the proposed cleaning and inspection program will result in improved service capabilities, systematic cleaning of the mains and the ability to prioritize main replacements results in efficient utilization of ratepayer funds. The Commission

further finds the City's request for \$16,000 in annual funding for implementation of this program to be reasonable.

10. The City has requested that the Commission authorize annual funding at the level of \$29,125, with these funds being used during the first year for an inventory of the system and costs associated with development of a Recurring Annual Capital Improvement Program (RACIP). In subsequent years, the City proposes that these funds be used to fund the RACIP.

11. During the hearing, City witnesses indicated that the system map identifying location of mains, size of mains, depths of mains, etc., was incomplete and that a need existed for a complete system inventory to determine this information. The witnesses indicated that this information was necessary for efficient operation of the utility because, absent this information, flow adequacy in areas where development may occur cannot be determined, rerouting of mains to improve flow capabilities is hampered, leak repair time is elongated without main locations, manholes covered by street construction increases distance that must be traveled to unplug mains, etc.

To accomplish that system inventory, the city anticipates retaining the services of a consulting engineer. In conjunction with that inventory, the City has expressed a desire to have the engineer formulate a RACIP that would enhance the City's ability to provide reasonably adequate service and maintain the integrity of the existing facilities.

12. The Commission finds both proposals to be reasonable. The system inventory, producing a complete system map, is beneficial and necessary because significant operational problems could occur absent this information. Formulation of a RACIP is good management in that it allows for proper system maintenance and recognition of the City's obligation to provide reasonably adequate service.

13. Based on the preceding Findings of Fact, the Commission finds the City should be authorized funding in the amount of \$29,125 to complete a system inventory and formulate a RACIP.

13. This Commission fully supports the funding of a RACIP when that funding is tied to a schedule of contemplated system improvements. In this instance, the City is requesting the funding for formulation of such a program but as yet, has not determined what improvements to the system are necessary or the required funding level needed to accomplish those improvements. The

testimony of the City's witnesses indicate that a need does exist for the implementation of a RACIP, but these witnesses could not quantify the cost of this program or the annual funding level needed to accomplish completion of the program. Therefore, the Commission has reservations concerning authorization of long-term funding without a reporting requirement and a possible hearing regarding annual funding at the level of \$29,125. In the near term, however, the Commission finds this funding to be reasonable.

14. The Commission finds that the City should, within 9 months of the service date of this order, submit to the Commission a 3 to 5 year RACIP with associated costs. Upon receipt of the City's proposed RACIP, the Commission will review the proposal and determine if the \$29,125 annual funding level should be further investigated. If this review discloses a need for investigation of the long term funding of the RACIP, the Commission will issue an Order to Show Cause, requiring the City to show why the RACIP funding level, authorized herein, should not be adjusted.

DEBT SERVICE

15. The City has a current outstanding revenue bond with an annual principal and interest payment of approximately \$32,370. In any sale of municipal bonds, the purchasers of the bonds must be assured their investment is secure. To provide this security, the municipality makes a promise, called a covenant, to do certain things that will ensure that it will always be able to pay the bond principal and interest as they come due. In this instance, the City included covenants agreeing to establish a bond reserve account in an amount equal to the maximum principal and interest payment on the bond and to provide a debt service coverage of 125%. The sewer department, per the bond indenture, has an obligation to provide funding for the reserve account totaling \$32,370. To date, the sewer department has accumulated \$10,640 in the bond reserve account which is \$21,730 short of that required by the bond indenture.

16. The City's failure to meet the requirements of its revenue bond indenture, insofar as it relates to the accumulation of a bond reserve in an amount equal to the maximum principal and interest payment due in any future year, places it in technical default of its currently outstanding revenue bond issue. The City has requested that the bond reserve be funded over the next three years from the unencumbered revenues generated by the 125% coverage ratio.

To comply with the bonding requirement that the utility provide debt service coverage of 125%, the utility will need to generate net operating income of at least \$8,092. To determine net operating income, operation and maintenance expense, as well as debt service, are subtracted from the total revenues of the utility. The required net operating income is calculated by multiplying the annual principal and interest payment on the bond issue by 25% ($\$32,370 \times .25 = \$8,092$).

17. Given the fact that the sewer utility is in technical default of its currently outstanding revenue bond, the Commission finds it appropriate to allow the City to accumulate the required bond reserve over a three year period, through transfers of the unencumbered revenues generated by the debt service coverage. The Commission further finds that the City should place approximately \$8,092 annually in the bond reserve account during each of the next three years.

REVENUE NEED

18. The original application reflected annual user charge revenues of \$104,123, which failed to reflect the implementation of increased rates of February, 1984. The City indicated in late filed exhibits that, under present rates effective February, 1984, user charges would generate approximately \$119,854 in annual revenues. The test period user charge revenues are not a contested issue in this case and are, therefore, accepted by the Commission.

19. During the course of cross-examination it was determined that user charges are not the only source of revenue for the City's sewer utility. The City, in its fiscal year 1984 operating statement, indicated that the sewer utility generated \$10,930 of interest income (per late filed exhibits). The interest income presented on the 1984 operating statement is deceiving because it does not reflect actual earnings from investment of monies held in sewer utility accounts. The interest income transferred to the sewer utility represents a proration of interest income, from all City investments, in proportion to the respective budgets rather than in proportion to the monies invested from the specific funds. During fiscal year 1984, the sewer utility had a maximum of \$10,640 available for investment purposes; therefore, it would be inconceivable that investment of those funds would generate the interest income presented in the operating statement.

The City treasurer should endeavor to maintain a segregation of funds available for investment purposes and credit specific based upon the monies provided by funds with interest earnings that fund.

20. Since it is known that the sewer utility has funds available for investment, and it is also known that the interest income represented in the operating statement is inaccurate insofar as it relates to actual earnings from investment of sewer utility funds, it is incumbent upon the Commission to impute a reasonable interest income for the utility. It is known that at the end of fiscal year 1984 the sewer utility had \$10,640 available for investment. In addition, the Commission in this order is authorizing the accumulation of \$8,092 for the reserve fund which will be available for investment; therefore, it is reasonable for the Commission to use mid-year accumulation of funds available for investment in determining interest income for the utility.

The utility currently has \$10,640 available for investment. With the annual accumulation of \$8,092 for the reserve fund, at mid-year the utility should have approximately \$14,686 available for investment purposes ($10,640 + (\$8,092 \div 2) = \$14,686$). Application of an interest rate of 8% on invested funds, results in the utility having interest earnings of approximately \$1,175, which the Commission finds reasonable (the Commission's assigned interest rate of 8% is probably conservative because the City should have the ability to make investments that will produce a higher yield).

21. The Commission, based upon the preceding Findings of Fact, finds that the total test period operating revenues are \$121,029.

22. The Commission, based upon the Findings of Fact contained herein, finds that the Applicant should be allowed to increase annual revenues by \$39,504. This requirement is calculated as follows:

Operating Revenues	\$121,029
LESS:	
Operating Expenses	\$ 74,946
TV Inspection & Cleaning	16,000
Inventory	29,125
Bond Principal & Interest	32,370

Bond Coverage	<u>8,092</u>
Total Revenue Requirement	\$160,533
REVENUE DEFICIENCY	\$ 39,504

RATE DESIGN

23. The rate structure proposed by the Applicant includes a monthly customer charge and a single usage rate applied to metered water consumption for an average winter period consumption, or actual metered consumption dependent upon the customer classification. The City has also included a flat rate for consumers connected to the sewer utility but not the water utility. The Commission finds the rate structure proposed by the Applicant to be fair and equitable.

24. There was concern expressed during the hearing relative to a rule of service that the City had implemented regarding responsibility for payment of utility bills. This rule requires that the owner of rental property pay any unpaid bill of tenants, prior to the institution of service to a new tenant. This Commission, pursuant to Title 69, Chapter 7, MCA, does not exercise regulatory supervision over the rules of service implemented by municipalities and, therefore, declines to rule on the appropriateness of this rule.

CONCLUSIONS OF LAW

1. The Montana Public Service Commission properly exercises jurisdiction over the parties and subject matter in this proceeding. Title 69, Chapters 3 and 7, MCA.

2. The Montana Public Service Commission has afforded all interested parties in this proceeding property notice and an opportunity to participate. Section 69-3-303, MCA, Title 2, Chapter 4, MCA.

3. The rates approved herein are reasonable, just and proper. Section 69-3-201, MCA.

ORDER

NOW THEREFORE, IT IS ORDERED THAT:

1. The City of Wolf Point shall file tariffs consistent with the Findings of Fact for Docket No. 84.6.33.

2. The City of Wolf Point shall, within 9 months of the service date of this order, submit to the Commission a 3 to 5 year Recurring Annual Capital Improvement Program with its associated costs. Upon receipt of this submission, the Commission will review the program and determine if annual funding at the level of \$29,125 should be continued or modified. Failure to comply with this paragraph will result in the Commission ordering a rate reduction in the amount of \$29,125 one year after the effective date of the rates authorized herein.

DONE IN OPEN SESSION at Helena, Montana, this 17th day of May, 1985, by a vote of
4 - 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

Clyde Jarvis, Chairman

Danny Oberg, Commissioner

Tom Monahan, Commissioner

Howard L. Ellis, Commissioner

ATTEST:

Trenna Scoffield
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See ARM 38.2.4806.